



**Statement by Douglas Barr, President & CEO
Goodwill Southern California
at the
Committee for Purchase Hearing
San Francisco, CA**

January 26, 2006

Mr. Chairman, Members of the Committee, my name is Doug Barr and I am the President/CEO of Goodwill Southern California which has been a JWOD-producing agency since 1993. Founded 90 years ago, our Goodwill serves all of Riverside and San Bernardino Counties as well as all of LA County, north of Rosecrans Avenue. Our staff numbers 1,650. Our 2006 budget is \$68.5 million of which 1.5% comes from JWOD revenues. We operate 46 stores, 39 attended donation centers and 19 workforce job centers through which, in 2005, we served over 20,000 individuals who were disabled or had vocational disadvantages.

The Committee recommends 14 “best practices” as benchmarks for agencies operating under the JWOD program and asks: “Are these criteria comprehensive and inclusive enough to ensure good governance to qualify an agency for inclusion in the JWOD program?”

In general, the answer is “yes” - the Committee has identified excellent benchmarks. Let me suggest some enhancements.

Practice #2. One way to ensure that an employee who is a member of the Board does not exercise “undue influence” is to make that individual an “ex officio, non-voting member.” This allows the staff member (often the President/CEO or a client-employee) to provide the Board with professional or constituency advice but leaves the decision-making up to the volunteer members of the Board.

Practice #3. While the benchmark of “not less than five but preferably more than seven unrelated directors” is useful, it is important not to regulate the maximum number of Board members. Our current number of directors is 37 but our by-law permits “up to 51.” For an organization whose jurisdiction covers over thirty thousand square miles and over 12 million inhabitants from diverse racial and cultural backgrounds, the Committee’s earlier suggestion of a maximum of 15 directors is clearly inadequate given the very broad Board representation we require to be credible.

Practice #4. The setting of term limits is one method for encouraging new blood on a Board but there are others. Our Goodwill has a Board of Advisors to which we can move less active Directors while still keeping them within the Goodwill “family”. Each year approximately 15% of our Directors rotate off and join the Board of Advisors. We see this as a preferable route to the imposition of a maximum number of terms for Directors.

Practice #7. While it is useful for a designated Board Committee to undertake the hiring, evaluation, and making of recommendations regarding the President/CEO’s compensation, it should be the entire Board which formally approves, rather than be

informed about, these decisions. As of January 1, 2005 under California Senate Bill 1262, it is unlawful for any body other than the Board of Directors to decide upon the compensation of a not-for-profit executive.

Practice #14. The proposal that the Boards of JWOD agencies should arrive at and approve all compensation packages for all “highly compensated” employees through a “rebuttable presumption” process is a sound one and should go a long way towards minimizing excessive compensation situations. The Board Chair could sign an annual statement indicating that such a process was undertaken by the Board in approving the compensation packages of all “highly compensated” staff members.

The Committee also seeks comment on the wisdom and adequacy of accreditation by one or more State or national organizations as evidence that a charity is adhering to good governance practices without further review by the Committee. Currently, every Goodwill in the United States must be accredited by an external third party body. Of the 177 US members, 131 are CARF accredited, with the balance accredited by either the state or Goodwill Industries International.

Of special interest to the Committee is that in 2005, CARF expanded its standards on governance to include virtually all Sarbanes - Oxley reforms. We believe that transparency is critical for a not-for-profit to maintain its public credibility and accreditation offers a simple, cost effective method for the Committee to assure itself that its JWOD providers are being governed in a professional and responsible manner.

Regarding the effect of executive compensation on fair market price determination, I need only refer you to the excellent analysis put forward by Bob Chamberlin of NISH that this speculation does not hold up upon an examination of the facts.

What is important for the Committee to understand about executive compensation is this: The local Board of Directors must be the body to set the compensation of JWOD agency executives. Why? Because, to attract and retain top-flight executives, Boards have to pay compensation which is competitive in their local markets. Frankly, the top pay grade of a senior, federal civil servant in Washington has little relevance to a not-for-profit Board seeking to hire or retain an executive in LA, Phoenix, Denver, Chicago, San Antonio, New York, or Miami. Years ago, former House Speaker “Tip” O’Neil observed that “all politics is local”. Well, the same can be said for the salaries of not-for-profit execs. If the local Board carries out its due diligence by utilizing the “rebuttable presumption” process, the Committee will have obtained the best protection it can obtain against instances of excessive compensation.

Let me close by speaking to a comment some Committee members have been overheard to make to attendees at previous hearings. Some of you may feel that, because public turnout and the number of briefs submitted at these three hearings have been limited, perhaps the JWOD community doesn’t care about these matters. I would suggest an alternative analysis. Recall that last year, when the Committee issued a Notice of Proposed Rulemaking, 166 public comments were submitted-all but a few strongly opposed to the proposed rules. My “take” on the low level of public response heretofore

is, that by moving away from its previous definitive positions on governance and executive compensation and by listing best practices and posing questions instead, the Committee has presented itself as more reasonable and consultative, with the result, that there has been less concern from the CRP community about recommendations that will flow naturally from such an approach. However, if this public consultation is merely an “exercise” and if the Committee ignores both past and present public input and attempts to push through its original and much opposed recommendations on board size and executive compensation, I predict that there will be considerably greater opposition when the actual regulations are promulgated.

I trust that the Committee finds these comments to be helpful and I appreciate the opportunity to address you.